DOCUMENT RESUME

ED 333 922 JC 910 314

TITLE Report on Fiscal and Compliance Accountability: Fiscal Year 1989-90. Report 91-2.
INSTITUTION California Community Colleges, Sacramento. Office of the Chancellor.
PUB DATE Jun 91
NOTE 49p.; For an earlier report, see ED 307 909.
PUB TYPE Reports - Research/Technical (143)

EDRS PRICE MF01/PC02 Plus Postage.
DESCRIPTORS *Accountability; Average Daily Attendance; College Planning; Community Colleges; *Compliance (Legal); *Educational Finance; *Financial Audits; *Financial Policy; Financial Services; Money Management; State School District Relationship; State Standards; State Surveys; Two Year Colleges
IDENTIFIERS *California Community Colleges

ABSTRACT

The results of various California community college financial audits and reviews for fiscal year (FY) 1989-90 are presented in this report. Section I explains the scope, purpose, and procedures of annual financial and compliance audits that are conducted to evaluate financial statements, encourage sound fiscal management practices, ensure proper use of public funds, and strengthen fiscal accountability at the district level. This section includes an analysis of the 592 citings contained in the FY 1989-90 audits. Section II describes the design and implementation of a system for monitoring and evaluating the financial condition of community college districts. Section III presents results of audits of district attendance accounting and reporting procedures, completed to ensure compliance with state reporting regulations. This section includes a discussion of the most commonly cited categories in FY 1989-90 (i.e., problems related to instructor credentials, intercollegiate athletic reporting, and course repetition). Section IV focuses on audits of districts' use of funds from a variety of state and federal programs (e.g., disabled students programs and services and Carl D. Perkins Vocational Education Act programs) with specific requirements, practices, and procedures for determining student eligibility and expenditures. A concluding section reviews the new definitions of community college accountability mandated by Assembly Bill 1725, as well as new and prospective changes in Governmental Accounting Standards Board regulations. Appendixes provide federal and state compliance requirements, contracted district audit manual revisions, and detailed financial condition monitoring procedures. (JMC)

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Report on Fiscal and Compliance Accountability

Fiscal Year 1989-90

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Chancellor's Office
California Community Colleges

June 1991

JC910514

Report on Fiscal and Compliance Accountability
Fiscal Year 1989-90

Report 91-2

Fiscal and Program Standards Accountability
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Table of Contents

Page

Introduction *i*

Sections

I. Annual Financial and Compliance Audits 1

II. Fiscal Condition Monitoring and Evaluation System 9

III. Department of Finance Audits of Average Daily Attendance 11

IV. Categorical Program Fiscal and Compliance Reviews 17

V. Looking to the Future 19

Appendices

A. Federal and State Compliance Requirements

B. Contracted District Audit Manual Revisions, March 1991

C. Detailed Financial Condition Monitoring Procedures

Introduction

Section 70901 of the *California Education Code* vests the Board of Governors with responsibility for providing leadership and direction in the development of the California Community Colleges as an essential component of the State's system of public higher education. To that end, the Chancellor's Office oversees community college programs and advises and assists local governing boards in interpreting and implementing applicable State and federal laws. The fiscal and compliance accountability activities summarized in this report are an important part of this oversight mandate.

Annual financial and compliance audits conducted in each district by private accounting firms pursuant to the *Education Code* (Section 84040) attest to the accuracy and completeness of district financial statements. The Chancellor's Office oversees these contracted district audits (CDAs) in cooperation with the State Department of Finance (DOF). This report represents the Board of Governors response to the provisions of Section 84040.6 of the *Education Code* to submit a summary of the CDA reports for Fiscal Year 1989-90 to the Joint Legislative Audit Committee.

Other efforts related to fiscal and compliance accountability are administered jointly with the Department of Finance. Section 84040.5 of the *Education Code* authorizes DOF to conduct compliance audits of community college apportionment reports as part of its responsibility to encourage sound fiscal administration of State funds. Once the audits are completed, the Chancellor's Office works with the districts to correct attendance reporting practices and, when appropriate or necessary, adjust the amount of State General Apportionment or categorical funds a district receives.

Independently, the Chancellor's Office has responsibility for monitoring the fiscal condition of community college districts, as well as for conducting financial and compliance reviews of categorically funded programs to ensure that districts comply fully with applicable State and federal requirements.

This report presents an overview of these financial audits and review activities for the 1989-90 fiscal year in addition to the summary of contracted district audits as required by Section 84040.7 of the *Education Code*. It also explains the role of the Chancellor's Office in encouraging and guiding campus accountability efforts. A concluding section comments on coordinated fiscal and compliance reviews under development at this time and Chancellor's Office plans for fiscal and compliance accountability activities in coming years.

California's community colleges are complex organizations, consisting of many programs and activities, each with its own assigned area of responsibility. One of the many activities under the control of local administrators is district financial management. Independent oversight of district financial accountability is maintained primarily through contracted district audits (CDAs), which are conducted by private accounting firms hired by the district. As discussed in greater detail in Section I, these audits evaluate district financial statements and perform limited compliance reviews in areas related to financial administration.

Local administrators also are responsible for maintaining the fiscal health of their districts. In recent years, some districts have experienced such severe financial problems that additional State aid has been required to maintain their educational programs. For that reason, the Chancellor's Office now operates a system for monitoring and evaluating fiscal conditions that provides early identification of and assistance to districts experiencing financial difficulties. This system, discussed in detail in Section II, is another Chancellor's Office service designed to strengthen district financial administration.

Under current funding formulas, the amount of State General Apportionment revenue a district receives is determined by the number of student contact hours (SCH) it reports, commonly referred to as Average Daily Attendance (ADA). Although annual district audits review ADA as it relates to district revenue, the Department of Finance has recognized that more detailed attendance audits are required to determine district compliance with legal provisions that control State funding (see Section III). The Chancellor's Office is responsible for ensuring that districts correct reporting errors and change improper attendance procedures identified through such audits.

For similar reasons, the Chancellor's Office conducts detailed fiscal and compliance reviews of specified categorically funded programs, as described in Section IV. These reviews are designed to determine district compliance with applicable State and federal statutes and regulations to a greater degree than examinations performed during contracted district audits. Previous years' reports on fiscal accountability presented detailed discussions of compliance reviews of Extended Opportunity Programs and Services (EOPS) and vocational education programs. This year, what previously were independent reviews of five major categorical programs have been combined into coordinated fiscal, compliance, and program reviews.

The concluding section of this report, "Looking to the Future," discusses factors that are expected to influence community colleges' audits in the years immediately ahead. It cites new and proposed governmental reporting standards, as well as the Chancellor's Office efforts to increase the compatibility of the *California Community Colleges Budget and Accounting Manual* with generally accepted accounting procedures for institutions of higher education.

I. Annual Financial and Compliance Audits

II. Fiscal Condition Monitoring and Evaluation System

III. Department of Finance Audits of Average Daily Attendance

IV. Categorical Program Fiscal and Compliance Reviews

V. Looking to the Future

Annual Financial and Compliance Audits

By law, all community college districts are required to undergo annual financial audits conducted by certified public accountants or by the State Board of Accountancy (Section 84040, *Education Code*). These audits:

- Evaluate annual financial statements;
- Encourage sound fiscal-management practices;
- Ensure proper use of public funds; and
- Strengthen fiscal accountability at the district level.

The Board of Governors prescribes the financial statements and other information to be included in the auditor's report and, in association with the Department of Finance, develops audit procedures for evaluating specific community college programs. For that purpose, the Chancellor's Office issues an audit guide, *Contracted District Audit Manual*.

The *Audit Manual* requires each auditor to review district financial statements and related fiscal operations. Because community college districts are governmental units, auditors also are required to test for compliance with laws and regulations affecting the receipt and expenditure of public funds in general. These evaluations culminate in contracted district audit reports that determine whether district financial statements are presented in accord with generally accepted governmental accounting principles and provide positive assurances regarding internal fiscal controls and compliance with selected State and federal statutes and regulations.

Although the *Audit Manual* stipulates areas to be examined and the format of the audit reports, the districts themselves are responsible for engaging independent accounting firms to perform annual audits in accordance with established guidelines.

Scope of Annual District Audits

Audits of community college districts have a different focus from those of publicly held corporations. In contrast to firms that derive income from the sale of goods and services, community college districts are funded on the basis of the number of students who attend classes and the assessed value of private residential and commercial property in the district. In addition, districts receive significant funding for specific categorical programs, including Extended Opportunity Programs and Services, Disabled Students Programs and Services, and Matriculation programs, among others.

Districts also receive federal funds under the Perkins Loan Program, College Work-Study Program, Pell Grant Program, and the Carl D. Perkins Vocational and Applied Technology Education Act. Each of these federal programs has statutory and regulatory requirements that control the receipt and expenditure of funds. Financial audits of community colleges are to encompass all funds controlled by districts. Consequently, auditors also review State and federal categorically funded programs to test for proper expenditure of the funds.

To assist district auditors in reviewing categorical programs, the *Audit Manual* includes procedures suggested in the federal *Compliance Supplement for Single Audits of State and Local Governments*. Additional direction is provided to auditors in another section of the *Audit Manual* that presents State statutes and regulations where compliance is an important concern. Accordingly, the Chancellor's Office suggests procedures the auditors may use to test or verify compliance that include detailed descriptions of the compliance requirements. Auditors are required to review district compliance in these specific areas as part of their annual examinations. The focus of compliance is modified as areas of concern change. The federal and State compliance requirements for Fiscal Year 1989-90 are listed in Appendix A.

After being approved by the local district governing board, the completed audit report is submitted to the Board of Governors and the Department of Finance on or before November 15 of each year. Because district audits include evaluations of major federal programs, copies of the reports must also be submitted to the appropriate federal agencies.

Audit reports are not always submitted by the deadline and do not always include all of the required statements and attestations. Sixty-nine (69) of the 71 community college districts conducted the required audits and filed their Fiscal Year 1989-90 reports by the deadline or on time. One district's report did not include all of the required information, but was subsequently corrected following notification by the Chancellor's Office. One report has not been completed and submitted as of May 1, 1991.

Audit Issues Found

District audits for 1989-90 received to date contained 592 citings (see Table 1). Of those, 56 concerned compliance with State regulations, 199 applied to compliance with State General Apportionment and categorical program regulations and 340 dealt with districts' internal accounting controls.

Citings in the first two categories are matters of State jurisdiction and fall within the purview of the Chancellor's Office. The Office monitors the resolution of citings in these categories to determine what actions districts have taken to implement the auditors' recommendations. The Office then evaluates each districts' response and either (1) verifies that appropriate action is being taken to achieve compliance, or (2) initiates further contact with the district to resolve the issue.

Citings concerning internal accounting controls are generally considered to be matters for local resolution. Past experience indicates that districts are usually eager to implement recommendations for strengthening internal controls. The Chancellor's Office may become involved in these resolutions if citings indicate systemwide problems that need to be addressed through amendments to the *Budget and Accounting Manual* or other State publications.

Citings that indicate a district is in or headed toward financial difficulty are referred to as "Going Concern Issues." These issues may be identified in the audit report by a comment or citings regarding the district's ability to meet its financial obligations. Although such issues are matters for State concern, auditors usually report them as internal control problems relating to general accounting or budgeting procedures.

As is discussed in Section II, the Chancellor's Office is responsible for identifying and monitoring the financial condition of community college districts. The review and analysis of district audit reports described here represents just one of the components of the early-warning mechanism that has been developed for that purpose.

Table 1

Annual Audits
Summary of Audit Citings
Fiscal Year 1989-90

District	Total Audit Citings	Category of Citings		
		State Compliance	Apportionment/ Categorical	Internal Controls
ALLAN HANCOCK JOINT	1	0	0	1
ANTELOPE VALLEY	1	0	0	1
BARSTOW	4	1	2	1
BUTTE	4	1	2	1
CABRILLO	1	0	0	1
CERRITOS	1	0	1	0
CHABOT-LAS POSITAS	18	1	7	10
CHAFFEY	5	0	1	4
CITRUS	10	1	2	7
COAST	5	0	1	4
COMPTON	27	6	7	14
CONTRA COSTA	0	0	0	0
DESERT	5	2	3	0
EL CAMINO	6	1	4	1
FEATHER RIVER	5	3	0	2
FOOTHILL-DeANZA	33	2	10	21
FREMONT-NEWARK	1	0	0	1
GAVILAN JOINT	9	1	0	8
GLENDALE	7	0	2	5
GROSSMONT CUYAMACA	13	0	0	13
HARTNELL	4	0	3	1
IMPERIAL	0	0	0	0
KERN	7	0	0	7
LAKE TAHOE	6	1	0	5
LASSEN	7	3	3	1
LONG BEACH	4	0	3	1
LOS ANGELES	43	1	23	19
LOS RIOS	2	0	1	1
MARIN	8	0	2	6
MENDOCINO-LAKE	5	1	1	3
MERCED	13	2	5	6
MIRACOSTA	12	0	0	12
MONTEREY PENINSULA	*	*	*	*
MT. SAN ANTONIO	11	1	0	10
MT. SAN JACINTO	12	3	6	3

*Report not received as of May 1, 1991.

Table 1
(Continued)

Annual Audits
Summary of Audit Citings
Fiscal Year 1989-90

District	Total Audit Citings	Category of Citings		
		State Compliance	Apportionment/ Categorical	Internal Controls
NAPA VALLEY	3	0	3	0
NORTH ORANGE COUNTY	6	1	2	3
PALO VERDE	14	2	6	6
PALOMAR	7	0	0	7
PASADENA AREA	4	0	3	1
PERALTA	9	0	1	8
RANCHO SANTIAGO	5	1	2	2
REDWOODS	15	1	4	10
RIO HONDO	11	1	1	9
RIVERSIDE	3	0	0	3
SADDLEBACK	12	3	2	7
SAN BERNARDINO	10	2	7	1
SAN DIEGO	6	1	0	5
SAN FRANCISCO	4	0	1	3
SAN JOAQUIN DELTA	4	0	0	4
SAN JOSE-EVERGREEN	22	1	5	16
SAN LUIS OBISPO COUNTY	4	0	4	0
SAN MATEO COUNTY	28	1	23	4
SANTA BARBARA	4	0	1	3
SANTA CLARITA	0	0	0	0
SANTA MONICA	9	1	5	3
SEQUOIAS	10	4	1	5
SHASTA-TEH.-TRI. JOINT	14	2	3	9
SIERRA JOINT	10	0	0	10
SISKIYOUS	5	0	2	3
SOLANO COUNTY	1	0	1	0
SONOMA COUNTY	7	0	3	4
SOUTHWESTERN	12	0	0	12
STATE CENTER	6	1	2	3
VENTURA COUNTY	8	0	3	5
VICTOR VALLEY	5	0	2	3
WEST HILLS	4	1	2	1
WEST KERN	7	0	5	2
WEST VALLEY-MISSION	30	1	15	14
YOSEMITE	0	0	0	0
YUBA	6	1	1	4
STATEWIDE	**595**	**56**	**199**	**340**

State Jurisdictional Citings

The 56 citings concerning compliance with selected State statutes and regulations were found in 34 (49%) of the 70 reporting districts. The most frequent citings were in three categories (Table 2): State Aid for Course Repetition (13); Census and Drop Procedures (11); and Audit Trail Accountability (10).

Table 2

Annual Audits
State Compliance Citings
Fiscal Year 1989-90

Categories	Districts Cited	Audit Citings
State Aid for Course Repetition	13	13
Audit Trail Accountability	9	10
Census and Drop Procedures	8	11
Student Probation and Dismissal	7	7
Instructional Equipment	4	4
Residency Determination	3	3
Salaries of Classroom Instructors	2	2
Administrative Salaries of EOPS Funded Personnel	2	3
Excess Costs of Special Courses for the Disabled	1	1
Allocation of Costs	1	2
STATEWIDE	**34***	**56**

*A district may have received more than one audit citing.

State aid for course repetition concerns districts' methods for identifying students who repeat courses. With the majority of district funding derived from the State General Apportionment, the Chancellor's Office is concerned that district procedures for monitoring course repetitions are in general agreement with Board of Governors regulations.

Census and drop procedures concern methods used to determine the status of students for purposes of reporting attendance. Audit trail accountability concerns the ability of districts to report required data elements.

The 199 citings in State General Apportionment and categorical programs are identified by category in Table 3. These citings were found in audits of 49 reporting districts. Student financial aid programs accounted for 97 (49%) of these citings, which generally occurred because districts lacked adequate procedures for collecting

student loans. Auditors also reported 37 instances of noncompliance with federal vocational education regulations.

Table 3
Annual Audits
Apportionment and Categorical Citings
Fiscal Year 1989-90

Categories	Districts Cited	Audit Citings
Student Loan Program	29	97
Vocational Education	22	37
General State Apportionment	19	35
Other Categorical Programs	16	27
Extended Opportunity Programs and Services	3	3
STATEWIDE	**49***	**199**

*A district may have received more than one audit citing.

Contracted district auditors are to be complimented for their efforts. Their findings are being presented in detail, and with more clarity, and recommend specific corrective actions. In addition, auditors are expanding their examinations into other program areas, as shown by the relatively large volume of citings in other categorical programs such as the Joint Training Partnership Act, Amnesty Education, Greater Avenues of Independence, and Upward Bound programs.

Increasing the effectiveness of contracted district audits is a continuing priority for the Chancellor's Office. Staff has worked closely with the Department of Finance to keep the *Audit Manual* current. In March 1991, the Chancellor's Office issued a revised *Manual* informing districts and auditors of financial reporting requirements and compliance areas for the next two fiscal years. Significant revisions were made to the *Manual* in Section 500, "Federal Compliance Requirements" and Appendix A, "Illustrative Audit Report." These changes affect federal reporting requirements for single audits but do not affect State-mandated costs. Mandated federal compliance requirements now include annual testing for the *Drug-Free Schools and Communities Act of 1986* as it relates to educational institutions. This required the addition of Subsection 527.9 to Section 500 of the *Manual*. Because of the adoption of the federal Office of Management and Budget Circular A-133, *Audits of Institutions of Higher Education and Other Nonprofit Institutions*, the illustrative audit report in Appendix A of the *Manual* was modified. Specific revisions to the *Manual* are detailed in Appendix B of this report. Presently, the Chancellor's Office and Department of Finance are continuing to evaluate the application of Circular A-133 to California Community Colleges.

Fiscal Condition Monitoring and Evaluation System

Since 1978, community colleges have been confronted by a series of fiscal crises. The colleges' ability to maintain existing programs and services had been challenged by the impact of high inflation and interest rates, Proposition 13, a cap on funding community college enrollment growth, student enrollment fees, defunding of courses, declining enrollments, increases in State-mandated programs, and the Gann Limit (Proposition 4). These economic pressures brought some districts to the brink of fiscal insolvency and required others to seek emergency State appropriations.

In response to these fiscal difficulties, and with the encouragement of the Board of Governors and other groups, legislation was enacted to foster sound financial management of community college districts. Assembly Bill 2910 (Chapter 1486, Statutes of 1986) requires districts to submit quarterly reports on their financial condition to the Chancellor's Office, which has the responsibility of identifying districts at risk and, when necessary, the authority to intervene to bring about fiscal stability. In September 1987, the Board of Governors adopted a policy statement, "Expectations for Sound District Financial Management," setting forth a series of fundamental financial planning and management principles.

To carry out the provisions of AB 2910 and promote the principle set forth by the Board, the Chancellor's Office staff, in cooperation with the districts, has designed and implemented a comprehensive system for monitoring and evaluating the financial condition of community college districts. Its purpose is to promote fiscal stability through early identification of districts at risk and application of appropriate corrective action that enables those districts to maintain or restore stability. A description of the detailed monitoring procedures is included in Appendix C.

These general objectives have been reinforced by the passage of Assembly Bill 1725 (Chapter 973, Statutes of 1988), which has brought about major reforms in community colleges. One of the key provisions of the legislation is the assessment of community colleges' effectiveness, as measured on the basis of selected fiscal and educational factors. Implementation of the systemwide Management Information System will assist in achieving this goal.

The present system of fiscal monitoring and evaluation assesses each community college district's financial condition on the basis of historical and current information derived from multiple sources, such as the district's *Annual Financial and Budget Report* (CCFS-311), annual audit reports, quarterly financial reports, and site visits.

This system provides a needed service to districts by helping them maintain sound fiscal conditions.

Chancellor's Office staff has evaluated districts' operations and categorized them into four groups: Priorities One through Three and No Follow-Up Required. The three priority categories refer to the need for follow-up action by the Chancellor's Office, with Priority One being districts with the most immediate need. As of the end of the second fiscal quarter of 1990-91, there were no Priority One districts, eight Priority Two districts, and three Priority Three districts. Currently, local administrative efforts in the 11 priority districts are of a preventive nature.

Department of Finance Audits of Average Daily Attendance

The resolution of the final four Average Daily Attendance (ADA) audits conducted in 1990 by the Department of Finance (DOF) marks the end of a significant era for community colleges. (DOF has not scheduled any further audits for 1991 or 1992.) Between 1985 and 1990, DOF audited 46 of the 71 community college districts and reported approximately 550 citings for resolution. DOF conducted the audits under the general authority provided in the *Government Code*, Sections 13070, 13293, and 13294, and the *Education Code*, Section 84040.5.

Evaluation of Attendance Accounting Practices

State General Apportionment in excess of $1.4 billion is allocated annually to community college districts on the basis of Annual Apportionment Attendance Reports (CCFS-320s) and Annual Apprenticeship Attendance Reports (CCFS-321s). The objective of attendance audits was to determine whether the two reports were completed in conformance with applicable laws and regulations, as well as attendance procedures developed by the Chancellor's Office. As citings were resolved, however, not only were necessary adjustments in attendance data identified, but college and State-level staff were able to identify program areas that required greater operational clarification, either through guidelines or regulations.

ADA is the measure of the amount of time students spend annually in a classroom, but an analysis of conditions necessary for countable ADA involves much more. Part of DOF's examination of ADA included such necessary considerations as whether course content and prerequisites (if any) were appropriate, whether instructors were certified to teach the courses, whether the length of time and location of a course were consistent with other similar courses, and the appropriate evidence for each of the above components. The complexity of these interrelated components required that resolution efforts be coordinated among the Department of Finance, the Chancellor's Office, and district and college personnel.

Based on the information provided by DOF and the audited districts, the Chancellor's Office, under authority of Title 5, Section 58300 of the *California Code of Regulations*, evaluated each issue and determined the appropriateness of district procedures with regards to State statutes, regulations, Chancellor's Office policy, past practices, other district procedures, and emerging standards. Once all the information was evaluated, a district was notified of the Chancellor's decision regarding procedural changes or report corrections that needed to be made.

As appropriate, a district then submitted corrected attendance reports, which were used to recalculate its State General Apportionment. If a corrected report showed that a district was entitled to less apportionment, the difference was distributed to the other 70 districts for such purposes as paying for unfunded ADA. Hence, the results of attendance audits did not change the total amount of State General Apportionment to community colleges as a system.

Types of Issues Discovered

Attendance audit citings from 1985 through 1990 may be grouped into 15 categories, as indicated in Table 4. Based upon the number of districts cited, the most prevalent citings concerned instructor credentials, intercollegiate athletic reporting, course repetition, attendance regulations compliance, attendance and academic documentation, and course approval.

Table 4
Department of Finance
Attendance Citings
1985 through 1990

Subject Areas	Districts Cited	Audit Citings
Instructor Credentials	29	59
Intercollegiate Athletic Reporting	27	41
Course Repetition	26	50
Attendance Regulations Compliance	22	50
Academic Documentation	21	58
Attendance Documentation	21	65
Course Approval	19	39
Administrative Errors – Other	15	28
Administrative Errors – Census	14	20
Courses Limited To Special Clientele	14	26
Academic Standards Grading Policies	13	23
Attendance Regulations – Special Courses	13	27
Academic Standards – Other	12	25
Administrative Errors – Independent Study	12	19
Administrative Errors – Apprenticeship	9	15
TOTAL	**46**	**545**

Instructor Credentials

The most significant category of citings involved instructors teaching courses without the required credentials or in subject areas not listed on their credentials. (These citings occurred in 29, or 63 percent, of the districts audited.) Prior to July 1, 1990, when the minimum qualifications provisions of Assembly Bill 1725 became effective, it was a legal requirement that, to be eligible for State support, community college courses be taught only by credentialed instructors. Further, the type of credential an instructor held possibly could limit the courses he or she was authorized to teach to subject areas specifically listed on the back of the credential.

Resolution of these citings was a complex matter. It was not a simple matter of comparing a subject area on an instructor's credential to a course title. Subject areas listed on credentials did not always encompass all possible subjects covered by community college courses. For example, "computer technologies" was not considered a subject area at the time some instructors in this area received their credentials. Some instructors obtained subsequent education or experience that qualified them to teach additional subjects without needing to apply for a new or amended credential. As another example, a course could evolve to the point where the title no longer accurately reflected the expertise needed to teach it. In this instance, the relationship between course title and instructor credential was cited by DOF. However, the problem was that the course title was not appropriate for the course rather than the relationship between the assigned instructor and the expertise needed to teach the course.

To resolve such citations, an instructor's own college coursework, his or her degree(s), and the amount of time spent as a community college instructor were compared with the evolution of the course, subject matter, and method of instruction. Chancellor's Office staff exercised particular care in dealing with these issues, aware that the resolutions not only applied to the cited situations; they also could influence new provisions for faculty minimum qualifications as provided for by community college reform legislation, under development at that time. Two years ago, a special communication explaining the seven basic principles followed in resolving issues related to instructors' credentials was sent to all community college districts to increase systemwide understanding.

Intercollegiate Athletic Reporting

The category with the second most frequent citings concerned attendance accounting procedures for claiming student contact hours in intercollegiate athletics. (These citings occurred in 27, or 59 percent, of the districts audited.) State regulations limit to 175 the number of hours that may be claimed for each enrolled student in each fiscal year for each intercollegiate sport. Sports that extended over more than one term, such as basketball and wrestling, were particularly troublesome for districts to

monitor. Every district reviewed by DOF in the first two years was cited in this category. However, once DOF took an interest in this area, the number of districts failing to comply with this regulation declined significantly.

Course Repetition

The category with the third most frequent citings involved course repetition. (These citings occurred in 26, or 57 percent, of the districts audited.) Like instructor credentials, the issue also has different aspects. DOF cited districts if they were unable to identify how often students enrolled in the same or similar courses or if they allowed students to inappropriately repeat courses.

Generally, a district cannot claim State General Apportionment for a student who attends a course in which he or she has previously received a grade, unless special circumstances exist. According to State regulations, a student may repeat a course once to alleviate prior substandard work or to improve a previous grade that resulted from extenuating circumstances, or if the college has determined there has been a significant lapse of time since the student last took the course.

A general exception is for courses identified as "activity" courses, for which the district may claim three additional semesters or five additional quarters. The district must identify such courses in its catalog, certify that each course is one in which the content differs each time it is offered, and certify that the student who repeats it is achieving an expanded educational experience. The district must also develop and implement a mechanism for monitoring such repetitions.

While the Department of Finance found instances where districts allowed students to inappropriately repeat courses, the more prevalent issue was the inability of districts to track the enrollment patterns of students. Districts could not determine if students were repeating courses.

The Chancellor's Office now places great emphasis on a district's ability to monitor student enrollments because of the increased importance of student accountability and progress reporting brought about by AB 1725. Because of DOF groundwork on this important issue, the Chancellor's Office modified the scope of the annual district audits (discussed in Section I) to incorporate ongoing oversight of course-repetition monitoring practices. (See the State Compliance Requirement "State Aid for Course Repetition" in Appendix A.)

Other Attendance Issues

As stated earlier, the general intent of attendance audits was to verify districts' compliance with State regulations and identify errors in reported data. The citings in

the next three categories in Table 4 – attendance regulations compliance, academic documentation and attendance documentation – show that DOF found approximately one-half the districts audited followed practices that did not fully comply with attendance regulations in these areas.

Attendance regulations compliance generally deals with the establishment and application of drop dates for "daily and weekly census procedure" courses and the identification of "actively enrolled" students. Census procedures require districts to identify students who are still actively participating (enrolled) in classes at specific points in time and, based upon that information, to calculate the number of hours used to compute ADA.

Academic documentation concerns the ability of districts to maintain individual student "contracts" required for work experience and independent study courses. These courses do not meet at regularly scheduled times and places and may have educational objectives that vary from student to student. Because of these characteristics, attendance accounting regulations require districts to maintain individual educational programs (IEPs) that specify learning objectives and written evaluations of student progress, among other stipulations. In work experience courses, employers may also be party to the contracts.

Attendance documentation concerns local practices that are not generally acceptable under Board regulations. For example, in noncensus procedure classes, some colleges were using "negative" attendance procedures – an unacceptable method by which instructors assume all enrolled students are active and only note when students are absent. To clarify Board regulations, the Chancellor's Office has issued administrative memorandums over the years that address census dates, adequate documentation procedures, intercollegiate athletics reporting procedures, and overlapping enrollment policies. Workshops also have been held to discuss documentation requirements for computerized systems.

Benefits of Attendance Audits

These attendance audits have benefited community colleges beyond merely correcting 46 of the more than 400 CCFS-320s submitted by districts during the last six years. Generally, they have increased communication between the Chancellor's Office and the districts and, consequently, increased the effectiveness of the accountability system, as demonstrated in the case of intercollegiate athletics. In the first two years, none of the 20 districts audited was adequately monitoring the hours claimed by sports that extended beyond one term. By the fifth year, once corrective actions were consistently required by the Chancellor's Office, every one of the last twelve districts audited was in compliance.

Other examples demonstrate the increased intra-system communication that has occurred in direct response to attendance audits. The resolutions of issues relating to credentials, course approvals, work experience, and independent study have all required Chancellor's Office staff to contact local staff directly. Interpretations, clarifications, and new approaches to these issues have been exchanged. Besides the administrative memorandum that clarified census and drop procedures, the Chancellor's Office distributed clarifying interpretations of credential policies and requirements for interdisciplinary courses. All these activities have given district and college personnel greater understanding of the Board of Governors and the Legislature's intent regarding the conditions necessary to justify eligibility for General State Apportionment.

Categorical Program Fiscal and Compliance Reviews

The Chancellor's Office administers a variety of State and federal programs that have specific requirements, practices, and procedures for determining student eligibility and expending funds. These "categorical programs" are described briefly in a publication entitled, *Concerning Accountability: An Inventory of Responsibility*, prepared by the Chancellor's Office Fiscal and Program Standards Accountability (F&PSA) Unit.

The F&PSA Unit's responsibility for fiscal and compliance reviews is limited by current resources to the following four programs:

1. **The Board of Governors Financial Assistance Program**

   In 1984, the Legislature imposed a mandatory fee on community college students enrolled in credit courses (Assembly Bill IXX, Chapter 1, Statutes of 1984, Second Extraordinary Session). The implementing legislation also allocated funds to the Board of Governors to reimburse community college districts for low-income students who cannot afford to pay the enrollment fee. The Board Financial Assistance Program (BFAP) is administered by the Chancellor's Office through Title 5 of the *California Code of Regulations*. The enrollment fee and financial aid provisions were extended until January 1, 1992, pursuant to Chapter 1118, Section 8, Statutes of 1987. The fee and program will be repealed at that time unless extended by a statute enacted prior to that date.

2. **Disabled Students Programs and Services**

   The Disabled Students Programs and Services (DSP&S) is authorized under AB 77 (Chapter 275, Statutes of 1976), as amended. This program is administered by the Chancellor's Office through Title 5, Sections 56000 to 56088 of the *California Code of Regulations*.

3. **Extended Opportunity Programs and Services**

   The Extended Opportunity Programs and Services (EOPS) is a categorical aid program authorized under SB 164 (Chapter 1579, Statutes of 1968), as amended. It is administered by the Chancellor's Office through Title 5, Sections 56200 to 56298 of the *California Code of Regulations*.

4. The Carl D. Perkins Vocational Education Act

The Carl D. Perkins Vocational Education Act (VEA) was enacted in 1984 as Public Law 98-524. VEA funds are allocated to California by the U.S. Department of Education on the basis of a State Plan submitted by the California Department of Education. The Chancellor's Office is responsible for allocating that portion of funds designated for community colleges in the State Plan. In October 1991, the Carl D. Perkins Vocational and Applied Technology Education Act of 1990, PL 101-392 will replace PL 98-524.

To establish uniform audit procedures for these programs, the F&PSA Unit concentrated its efforts during the 1989-90 fiscal year on the development of a *Coordinated Fiscal and Compliance Accountability Field Review Manual* and corollary documents. The basic approach to implementing this coordinated review was derived from the concept that this effort should complement and support the college accreditation process. Consequently, those community colleges in the fourth year of the normal six-year accreditation cycle must complete an extensive college program survey that requires descriptive and performance responses from each of these programs. Of the 16 to 22 colleges surveyed each year, up to 9 are scheduled for follow-up site visits by a joint team of college and Chancellor's Office personnel to validate the survey responses.

After field testing the *Manual* and the program survey process, F&PSA and Chancellor's Office program staff embarked on a schedule of formal college program reviews during the 1990-91 fiscal year. By the end of 1990, two college site visits had been successfully conducted. The colleges reviewed had high marks for the effectiveness and assistance provided by the review teams. They acknowledged that such examinations in the year preceding the colleges' own self-study would assist them in preparing for accreditation. In this way, categorical program reviews, which formerly had been conducted separately and on varying schedules, are conducted simultaneously in a cogent and comprehensive manner.

The outcome for all of the coordinated reviews conducted during 1990-91 will be included in the June 30, 1992 edition of this report.

Looking to the Future

Community college accountability activities, at both the State and local levels, have tended to focus on district general financial operations, fiscal conditions, and student attendance accounting, and to a lesser degree, on the administration of selected categorical programs. Annual district audits provided needed assurances regarding financial activities, but only limited assurances in program compliance. Department of Finance attendance audits concentrated on the eligibility of courses claimed for State General Apportionment. Program management reviews were not conducted broadly or scheduled in a coordinated, multi-program fashion. Now, given the incentive of community college reform legislation, proposals are being implemented that have major implications for achieving integrated, comprehensive community college accountability.

AB 1725 Redefines Community College Accountability

Assembly Bill 1725 (Chapter 973, Statutes of 1988) confirmed the California Community Colleges as one of the State's three systems of public higher education. With this development, the Legislature also increased its demands for accountability. Two essential directives in AB 1725 state that:

> The Board of Governors shall develop and implement a comprehensive community college educational and fiscal accountability system (*Education Code* Section 71020.5(b)).
>
> The chancellor shall provide a written report on the accountability system developed pursuant to this section to the Legislature and Governor on or before July 1, 1990 (*Education Code* Section 71020.5(d)).

The Board's responsibility to provide leadership to community colleges is especially significant during this period of change, in which oversight activities are being aligned with the concept of the coordinated system of higher education envisioned in AB 1725: a complex system that carries out its mission through a broad spectrum of programs and services; articulates well with the other educational systems; efficiently and effectively assists students to reach their educational goals; and is accountable to the citizens of California.

The purpose of the accountability required by AB 1725 is to provide individuals concerned about the operation of California Community Colleges with adequate, accurate, and timely information on college performance and student progress. An

accountability system must satisfy the informational needs of the Legislature, State and federal agencies, college administrators, faculty and other staff, and most importantly, students. One of the primary tasks of the Chancellor's Office during this period of transition is to integrate the new accountability requirements with existing activities, remembering that a comprehensive accountability system must contain components that encompass all aspects of college operations. To that end, the Chancellor's Office has established goals to:

- Increase local (district/college) responsibility for self-evaluation and monitoring of internal accountability mechanisms;
- Eliminate duplicative visits by Chancellor's Office staff and others through a comprehensive, coordinated system of on-site team reviews;
- Establish an ongoing process for in-service technical and management training of college and district staff to assure uniformity of understanding of procedures, application of standards, and maintenance of quality controls; and
- Maintain a fair and prudent process for corrective action.

Complicating these developmental efforts are a number of major new programs being implemented by the colleges. Among these are Amnesty Education, Faculty and Staff Diversity, Staff Development, Transfer Centers, Articulation, and Matriculation programs. The agenda for the future of the California Community Colleges must include a determination of the need for and nature of accountability in these new initiatives. By definition, a comprehensive accountability system includes the four basic elements:

- Fiscal audits, which address issues of appropriate uses of institutional or program funding;
- Compliance or validation reviews, which address issues of institutional or program operations compliance with statutory and other requirements;
- Program management reviews (also known as procedural operational program reviews, or economy and efficiency reviews), which address issues of the quality of institutional or program operations; and
- Outcome performance reviews, which address issues of institutional or program effectiveness.

Developmental Efforts for Increased Accountability

The reporting mandates in AB 1725 concerning community college performance and student success require that the Board define and measure specific information in different categories. These include, among others, student transfer rates and programs, completion rates of programs and courses, and the adequacy of courses and instruction in basic skills and English as a Second Language in preparing students to succeed in collegiate-level work. To fulfill that mandate, the Chancellor's Office, with the assistance of a special task force, is consulting with district and college staff on various categories for collecting information. As currently scheduled, the required categories of data to be collected will be established sometime in 1992.

District and college responsibility for self-evaluations and monitoring are being increased through the development of additional evaluative tools. In the last year, the program surveys and the *Coordinated Fiscal and Compliance Accountability Field Review Manual*, mentioned in Section IV of this report, were developed to assist college personnel in evaluating BFAP, EOPS, DSP&S, Matriculation, and VEA programs. The survey instruments and *Manual* are presently being used by staff at selected colleges. Likewise, the Chancellor's Office is implementing a new method of program evaluation wherein these five major programs will be examined on a campus simultaneously by a coordinated team of fiscal, compliance and program experts from both the Chancellor's Office and other campuses.

While it presently addresses only five programs, this evaluation method is designed to be applicable across a broad spectrum of current and future programs. The process being implemented jointly by the Fiscal and Program Standards Accountability (F&PSA) Unit and other program staff in the Chancellor's Office encompasses a matrix concept from which all accountability review activities can proceed. Five basic categories of activity have been identified: program initiation and planning, program administration, personnel requirements, student and services eligibility, and fiscal administration. This approach provides the flexibility to move from a programmatic to a functional review.

Efforts are underway to provide more information to district and college staff about laws and regulations that influence their operations. One such effort is the publication of *Concerning Accountability: An Inventory of Responsibility*, an inventory of community college programs distributed in the spring of 1990. The primary reference document for community college accounting, the *California Community Colleges Budget and Accounting Manual*, is also undergoing revision to make it more compatible with the developing statewide management information system and more consistent with changing accounting practices for institutions of higher education.

Another recent development is the passage of Senate Bill 1854 (Chapter 1372, Statutes of 1990), which furthers the general objective of creating a community

college system of higher education in California. Generally, the legislation repeals statutes that address administrative details and directs the Board of Governors to establish virtually identical provisions in regulation. From an operational perspective, the legislation does not significantly influence local activities, but from a governance standpoint it provides the Board of Governors and the district governing boards the means to operationally define the "system of community colleges."

With the increased emphasis on accountability and the associated change in governance structure, the Chancellor's Office has recognized the need for a fair and prudent process for corrective actions. Accordingly, a process is being developed that recognizes that district and college personnel are most familiar with their operations and in the best positions to identify potential problems and solutions. The role of the Chancellor's Office is to alert local staff to instances where activities or policies deviate from mandated expectations. As the new comprehensive accountability system develops, the emphasis on assisting local staff to develop corrective actions will increase.

New and Prospective Changes in Governmental Financial Reporting Standards

Several pronouncements have been recently adopted or are under consideration by the Governmental Accounting Standards Board (GASB). Individually, each pronouncement is important, but taken together they are so significant that GASB will require simultaneous implementation after June 15, 1994. Because these changes may have a significant effect on community colleges they are introduced here so readers and those who prepare community college financial statements may further research and access their effect. The pronouncements, exposure drafts, and discussion memoranda are titled:

- *Measurement Focus and Basis of Accounting – Governmental Fund Operating Statements*, GASB 11
- *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, GASB 10
- *Accounting for Pensions by State and Local Governmental Employees*, Exposure Draft
- *Accounting and Financial Reporting for Capital Assets of Governmental Entities*, Discussion Memorandum
- *Capital Reporting – Capital Transactions of Governmental Funds and Related Capital Debt*, Discussion Memorandum

- *The Financial Reporting Entity*, Discussion Memoranda
- *Measurement Focus of Governmental Business – Type Activities or Entities*, Discussion Memoranda

These pronouncements change governmental financial reporting emphasis from current financial resources to total financial resources. While this will affect the reporting of many, if not all, revenues and expenditures, long-term debt and capital expenditures will be the most influenced.

A. Federal and State Compliance Requirements

B. Contracted District Audit Manual Revisions, March 1991

C. Detailed Financial Condition Monitoring Procedures

Federal and State Compliance Requirements

Annual financial audits are to examine the following compliance requirements in each community college district. In many districts, due to the size of the federal programs, audits may be required to expand their scope to include additional compliance tests.

Federal Compliance Requirements

1. Political Activity

Compliance Requirement

Federal funds cannot be used for partisan political activity of any kind by any person or organization involved in the administration of federally assisted programs.

2. Davis-Bacon Act

Compliance Requirement

When required by the federal grant program legislation, all laborers and mechanics employed by contractors or subcontractors to work on construction projects financed by federal assistance must be paid wages not less than those established for the locality of the project by the Secretary of Labor.

3. Civil Rights

Compliance Requirement

No person shall, on the grounds of race, color, national origin, age, or handicap, be excluded from participation in or be subjected to discrimination in any program or activity funded, in whole or in part, by federal funds. Discrimination on the basis of sex or religion is also prohibited in some federal programs.

4. Cash Management

Compliance Requirements

Grantee financial management systems shall include procedures to minimize the time elapsed between the transfer of funds from the U.S. Treasury and the disbursement of funds by the grantee.

Advances made by primary recipients to secondary recipients shall conform substantially to the same standards of timing and amount as apply to advances by federal agencies to primary recipient organizations.

5. Relocation Assistance and Real Property Acquisition

Compliance Requirement

Federal aid programs may require the acquisition of property by a public agency and subsequent displacement of households and businesses. Grant recipients acquiring property in the administration of federal aid must carry out certain actions systematically; e.g., have property appraised in presence of owner, review appraisals, set price and negotiate settlements. Similarly, when displacements (relocations) are involved, the recipient must, for example, provide assistance systematically in locating replacement housing, assure that it meets acceptable standards, and maintain records on all acquisitions and displacements.

6. Federal Financial Reports

Compliance Requirement

Most federal programs require periodic submission of financial reports that fall within one or more of the following three categories:

a. Office of Management and Budget Circular A-102 H

b. Treasury Circular 1075

c. Other federal reports adapted with permission of the Office of Management and Budget to meet particular program requirements.

The specific requirement for each grant program is presented in the Reporting Requirements (III-D) section for that program. The suggested audit procedures are provided to facilitate the requirement for the auditor to comment on

completeness and accuracy of reports required by OMB Circular A-128, *Audits of State and Local Governments*; and Treasury Circular 1075, *Withdrawal of Cash from the Treasury for Advances under Federal Grants and Other Programs.*

7. Student Financial Aid Programs

The specific compliance requirements and mandatory audit areas for any student financial aid (SFA) program are provided in this section.

a. Cash Management

Compliance Requirement

Financing for SFA programs is normally made through advance payments. SFA programs will be made through one of three methods: (1) Cash request for those institutions new to SFA programs or for institutions which receive funding on a reimbursement basis, (2) Automated Clearing House/Electronic Fund Transfer (ACH/EFT) is the primary mechanism used to disburse ED funds to most institutions, and (3) FEDWIRE is the mechanism used to disburse ED funds to states and very large institutions. An institution's financial management system should include the necessary controls to ensure that program funds are accounted for properly and are used for authorized purposes. Regardless of the method of payment, an institution's cash controls should provide that cash on hand does not exceed the immediate disbursement needs of the SFA programs.

b. Financial Reporting

Compliance Requirement

An institution receiving SFA funds is required to ensure that financial status reports, cash reports, and claims for advances and reimbursements contain reliable financial data and are presented in accordance with the terms of applicable agreements. The following are some of the reports prepared by institutions:

(1) Fiscal Operations Report and Application to Participate (FISAP Report/ED Form 646-1)

(2) Pell Institutional Payment Summary (ED Form 255-3b)

(3) GSL – Student Confirmation Reports

(4) ACH/EFT Voucher Request Record

(5) FEDWIRE Payment Request Information Voucher

(6) Recipient Request for Advance or Reimbursement

(7) Federal Cash Transaction Report SF 272

Individual award agreements contain the specific reporting requirements that the recipient is to follow. Auditors should familiarize themselves with the detailed instructions and the client's system for preparing and submitting federal financial reports. A separate auditor's opinion on these reports is not required. However, as a basis for comments, the auditor should examine a sample of reports and trace the data on these reports to the underlying records on a test basis.

c. Institutional Eligibility and Participation

Compliance Requirement

To participate in the Pell or Campus-Based Programs, an institution must be an eligible institution of higher education; i.e., a public or nonprofit private institution of higher education, a proprietary institution of higher education, or a postsecondary vocational institution. Public or private nonprofit institutions of higher education, vocational schools, and certain foreign schools that meet statutory and regulatory requirements may be eligible to participate in the Stafford Student Loan (SSL), Supplemental Loans for Students (SLS), and Parents Loans for Undergraduate Students (PLUS) programs.

d. Student Eligibility

Compliance Requirement

A grant, loan, and/or work-study award may be made only to a student who is a regular student of a postsecondary institution; is enrolled or accepted for enrollment as, at least, a half-time student in an eligible program; is a U.S. citizen, national, or permanent resident, or in another specified status; has financial need; has signed a Statement of Educational Purpose; has signed a Statement of Registration Status; is maintaining satisfactory progress in his or her course of study; (i) is admitted with a

certificate of graduation from a school providing secondary education, (ii) is admitted with a recognized equivalent of that type of certificate; or (iii) is beyond the age of compulsory high school attendance in the state in which the institution is located and has the ability to benefit from the education or training offered; does not owe a refund on a Title IV grant; and is not in default on a federally funded or insured student loan received from or for attendance at any institution. In addition, effective July 1, 1988, a student must certify that he or she is not in default and does not owe a refund. If a student has been accepted into an eligible program within which that student takes remedial courses, the student is eligible for Title IV aid. If the student is not accepted into an eligible program until the remedial program has been successfully completed, he or she is not eligible until accepted into the eligible program.

Exceptions to Compliance Requirements

There are several exceptions to the general compliance requirements: an institution may make Pell Grants and Supplemental Educational Opportunity Grants (SEOGs) only to undergraduate students; an institution may use a reasonable proportion of its College Work-Study (CWS) and/or SEOG allocation to fund students enrolled less than half-time; selected Pell students enrolled less than half-time are also eligible; PLUS and SLS borrowers do not have to show financial need (PLUS borrowers include parents of dependent undergraduate students); certain Guaranteed Student Loan (GSL) students do not have to be regular students enrolled in eligible programs.

e. Coordination of Student Aid Programs

Compliance Requirement

An institution shall coordinate Title IV programs with the other federal and nonfederal programs of student financial aid it administers and shall establish controls to preclude the awarding of assistance in excess of a student's financial need. The institution must assure that it uses all information in its possession regarding a student's Title IV eligibility including: need analysis documents; tax returns; information regarding a student's citizenship; previous educational experience; or other factors.

f. Administrative Capability – Student File Maintenance, Fiscal Procedures, Record Keeping and Verification

Compliance Requirements

(1) An institution shall establish and maintain, on a current basis, financial records to reflect all financial transactions. The institution shall identify disbursements of Pell, Perkins, CWS, and SEOG funds separately from all other expenditures. Program and fiscal records must show cost of attendance, student resources, student eligibility, and payment, respectively. The regulations specify other administrative capabilities an institution must meet, including satisfactory academic progress.

(2) Except for loan records and audit questions, an institution must keep records for an award year for five years after it files its Fiscal Operations Report (for Campus-Based Program funds) and June 30 Pell Institutional Payment Summary. For Perkins loans, the institution must keep repayment records for at least five years from the date of loan assignment, repayment, or cancellation. For GSL and PLUS loans, the institution must keep copies of reports for five years after filing. For GSL, SLS, and PLUS loans, the institution must keep all required records for five years following the last date of the period for which the loan was intended. The institution must keep records of any claim or expenditures questioned by Federal audit until resolution of any audit questions.

(3) The institution must verify the required applicant data on those SARs or other need analysis documents selected by ED for verification, before disbursing Title IV funds. However, no institution is required to verify more than 30 percent of its applicants for all SFA programs.

g. Institutional Disbursements to Award Recipients

Compliance Requirements

(1) If an institution is disbursing Stafford, Pell, Income Contingent Loans (ICL), or Campus-Based Program funds, it shall obtain a financial aid transcript if a recipient previously attended another eligible institution and maintain the transcript on file.

(2) The various student aid programs have maximums and minimums, as follows:

Perkins:

(a) $18,000 maximum for a graduate student (includes any amounts the student received as an undergraduate student).

(b) $9,000 maximum for an undergraduate with an upper limit of $4,500 on loans to undergraduates during the first two years.

SEOG:

(a) $4,000 maximum for the academic year.

(b) $100 minimum for the academic year.

Pell Grant:

The amount of the award varies depending on the Payment Schedule in effect for the award year involved, but may not be below the minimum or exceed the maximum award established for that year.

(3) In general, an institution shall make at least two equal payments each academic year, under the Pell, SEOG, and Perkins programs. For these programs, the institution shall make direct disbursements to a student, or if it credits the student's account, it must give the student receipts or otherwise notify the student of the method of payment. For CWS, the institution must pay the student directly at least once a month.

h. Refund Calculation and Overpayment Determination Procedures

Compliance Requirements

(1) Withdrawal Date vs. Drop-Out Date

The date used to calculate the student's refund or repayment is the date the student officially notifies the school that he or she is withdrawing from the program. If the student leaves school without giving notice, the school must use the "drop-out date."

It might be important to distinguish the difference between "drop" date and "withdrawal" date. The drop date is the last date the institution can document the student attended classes, (last recorded day of attendance) whereas the withdrawal date is the date the student officially notifies the school that he/she has withdrawn or the date the school unofficially learns the student has withdrawn. They can be the same date, but could differ. For example, the student may drop out on September 20, but not notify the school until October 10. September 20 falls within the school's refund period, and thus, there is a Title IV refund. However, the 60-day period to return the funds to the lender or Title IV accounts does not start until October 10.

If a student who received Title IV funds other than CWS is due a refund, the institution shall return a portion of the refund to the Title IV program(s) by using the following formula:

> Student Refund multiplied by the factor of: [amount of Title IV minus CWS earnings awarded for the payment period] divided by [the total amount of aid award minus earnings for the payment period]

Certain institutions are subject to a pro rata refund policy for students who received a Stafford or SLS loan or whose parents received a PLUS loan. This policy will affect the amount of the student's refund. See page VIII-6 of the *USDOE Audit Guide for Student Financial Aid Programs* for additional information on the pro rata refund requirements.

(2) An institution is responsible for determining any overpayment to a student. An overpayment can commonly occur when a student leaves an institution after receiving a cash disbursement under the Pell, SEOG, or Perkins programs.

The institution shall to use the following formula in determining the amount of overpayment to be returned to the Title IV programs:

> The amount of the overpayment is equal to: [Total amount of Title IV aid (exclusive of CWS, Stafford, PLUS, and SLS awarded for the payment period] divided by the total amount of aid (exclusive of CWS, Stafford, PLUS, and SLS) awarded for the payment period]

i. Institutional Disclosure

Compliance Requirement

Before a student enrolls or executes his enrollment contract in a vocational program, an institution shall disclose to the student the State licensing requirements, the pass rate of recent graduates for any licensing examination, the job placement rate of students originally enrolled in that particular program, and the completion rate for students originally enrolled in that particular program. Disclosure shall be in the format required by SFA regulations. [P.L. 101-542 suspended this requirement until further notice, 34 CFR 668.44.]

j. Drug-Free Workplace

Compliance Requirement

All grantees receiving grants, including cooperative agreements, from any federal agency must certify that they will provide a drug-free workplace, or, in the case of a grantee who is an individual, certify to the agency that his or her conduct of grant activity will be drug-free. Making the required certification is a precondition of receiving a grant from a federal agency beginning on March 18, 1989. A grantee, except a state, is required to make the required certification for each grant. A state, including a state agency, may elect a single annual certification for each federal agency from which it obtains grants.

State Compliance Requirements

1. Audit Trail Accountability

Compliance Requirement

Each district shall maintain a separate and complete tabulation for each course section in which the student attendance is reported for State support.

2. State Aid for Course Repetition

Compliance Requirement

Section 58161 of the *California Code of Regulations* does not allow a district to claim State General Apportionment for attendance of a student in a course in which the student has previously received a grade from the district unless

either the student is repeating the course to alleviate substandard work which has been recorded on the student's record, the district finds that the student's previous grade was the result of extenuating circumstances, or the district has determined that a student should repeat a course because there has been a significant lapse of time since the student previously took the course.

Attendance for such repetition may be claimed only once for State aid (beyond that originally claimed when the course was first completed). State General Apportionment for repetition of "activity" courses not expressly authorized above may be claimed for three additional semesters or five additional quarters upon approval of the Chancellor.

The district must identify the courses which are to be repeatable and designate such courses in its catalog, and must determine and certify that each identified course is one in which the course content differs each time it is offered, and that the student who repeats it is gaining an expanded educational experience. The district must also develop and implement a mechanism for the proper monitoring of such repetitions. (For the 1987-88 fiscal year, the Chancellor delegated authority to the districts to designate activity courses as repeatable consistent with applicable standards developed in Section 58161 of Title 5 of the *California Code of Regulations*.)

3. Residency Determination

Compliance Requirement

Each district must act to ensure that the residency of each student is properly classified and that only the attendance of California residents is claimed for State support.

4. Census and Drop Procedures

Compliance Requirement

Each district shall claim for apportionment purposes only the attendance of students actively enrolled in a course section as of the census date (if census procedures are used to record attendance in the course section).

5. Salaries of Classroom Instructors (commonly called "50 Percent Law")

Compliance Requirement

Each district's salaries of classroom instructors shall equal or exceed 50 percent of the district's current expense of education in accordance with Section 84362 of the *Education Code*.

6. Excess Costs of Special Courses for the Disabled

Compliance Requirement

Each district's claim for State excess cost funds to partially support special classes for the disabled shall not exceed an amount equal to the total direct cost of eligible courses less all regular State apportionments received for student attendance in these courses.

7. Student Probation and Dismissal

Compliance Requirement

Students shall be placed on probation if their grades reflect either academic deficiency or failure to make timely progress on courses attempted or earned a grade point average below 2.0 in at least 12 semesters or 18 quarter units attempted or entries of "W," "I," and "NC" in at least 50 percent of 12 semesters or 18 quarter units attempted. Students on probation shall be subject to dismissal if they each earned either an accumulative grade point average of less than 1.75 in all units attempted over three semesters or five quarters; or receive entries of "W," "I," or "NC" in at least 50 percent of units attempted over three semesters or five quarters.

8. Allocation of Costs

Compliance Requirement

Salaries of instructors teaching ADA-generating classes, school counselors providing academic advisement, and financial aid officers conducting need analysis are not considered supportable charges against either Extended Opportunity Programs and Services (EOPS) or Disabled Students Programs and Services (DSP&S) accounts unless their activities require them to perform additional functions for the EOPS or DSP&S programs which are beyond the scope of services provided to all students in the normal performance of the

regular duty assignments. These activities may be supported only to the extent of the supplementary services provided for EOPS or DSP&S.

9. EOPS Administrator/Director Requirements (formerly titled Administrative Salaries of EOPS Funded Personnel)

Compliance Requirement

Each district's claim upon EOPS funds shall exclude expenses incurred as administrative salaries (assistant dean beginning salary level for the district and above) unless the administrator exclusively functions in the capacity of the EOPS Director or an exemption is specifically certified by the State Chancellor's Office.

10. Instructional Equipment

Compliance Requirement

Each district shall use instructional equipment funds to purchase equipment for instructional purposes to satisfy any of the following objectives:

- Replace old equipment with property of a similar nature;
- Upgrade existing equipment to bring an instructional program to state-of-the-art quality;
- Expand existing equipment to serve additional students; or
- Change dimensions of a program by changing the emphasis or objective of an instructional program in some way.

Appendix B

Contracted District Audit Manual Revisions, March 1991

	Revised Pages
Table of Contents: The name of Section 140 was changed from "Extension of Audit Reports" to "Report Due Date." Section heading locations were modified to reflect modifications made in Section 500.	2,3
Section 100: Wording in Sections 130, 140 and 150 modified to reflect provisions of Chapter 1372, Statutes of 1990. Name of Section 140 changed to "Report Due Date." In Section 180, *California Administrative Code* (CAC) changed to *California Code of Regulations* (CCR) and *Catalog of Federal Domestic Assistance* added as a reference.	1,2,3,4
Section 200: In Sections 230 and 250, references to Office of Management and Budget (OMB) Circular A-128, *Audits of State and Local Governments* replaced by OMB Circular A-133, *Audits of Institutions of Higher Education and Other Nonprofit Institutions.*	2
Section 300: In Section 323, references to OMB Circular A-128 replaced by OMB Circular A-133.	2,6,7
Section 400: References in Sections 431, 432, and 434 through 440 to *California Education Code* sections replaced by references to CCR sections in response to Chapter 1372, Statutes of 1990.	3,4,5,7,8,11, 12,13,14,15 and 16
Section 500: Section 510 underwent significant wording changes to reflect the passage of OMB Circular A-133 and the *Drug-Free Schools and Communities Act of 1986.* Section 510 also was modified to reflect the deletion of the Comprehensive Employment Training Program, Section 551 and the movement of student financial aid programs mandated compliance tests from Section 561 to the new Section 527. Institution Disclosure, Section 527.8, and Drug-Free Workplace, Section 527.9 are new mandated federal compliance testing structures. Section 573, *Drug-Free Schools and Communities Act of 1986*, Part 2 – State and Local Programs, was deleted from the *Manual* as it did not apply to community colleges.	All pages

	Revised Pages
Section 600: Section 622 was amended to show OMB Circular A-133.	3,8
Appendix A: Wording in sample auditor reports on pages 3, 34, 45, 46 and 47 modified to refer to governmental auditing standards and OMB Circular A-133. Note 5 – Employees' Retirement Systems reworded to incorporate comments from the State Teachers' Retirement System. Reference to Note 7 – Subsequent Events made for increased clarity. Title of Schedule of Categorical Awards and Allowances on page 36 changed to Schedule of Federal and State Financial Assistance. Format of page 36 changed to reflect new federal reporting guidelines.	3,14,15,16, 17,18,34,36, 40,41,43,45, 46 and 47
Appendix B: No Changes.	
Appendix C: The draft version of Office of Management and Budget (OMB) Circular A-133 was replaced by the final version. OMB Circular A-128 was deleted from the *Manual*.	All pages

Appendix C

Detailed Financial Condition Monitoring Procedures

1. Background

In response to the growing concern for accountability and with enabling legislation (Assembly Bill 2910, Chapter 1486, Statutes of 1986), the Board of Governors and the Chancellor's Office have established expectations for sound district fiscal management and a system for monitoring and evaluating a district's financial condition system to ensure the financial health of California's community college districts. In accordance with the law, the Chancellor's Office has been given the responsibility to identify districts at risk and, when necessary, the authority to intervene to bring about improvement in their financial condition. To stabilize a district's financial condition, the Chancellor may, as a last resort, seek an appropriation for an emergency apportionment.

2. Purpose

The monitoring and evaluation system serves as an early detection and prevention process that will ". . . stabilize the financial condition of the district before an emergency apportionment is necessary. . . ." This is accomplished (1) by assessing the financial condition of districts through the use of various information sources, including a quarterly financial reporting mechanism; and (2) by taking appropriate and timely follow-up action to bring about improvement in districts' financial condition.

3. Method

The monitoring and evaluation system consists of two basic parts.

a. *Assessment of District's Financial Condition (Described in Section 4)*

(1) A variety of instruments and sources of information are used to provide a composite of each district's financial condition, including:

- Quarterly Financial Status Reports (CCFS-311Q)
- Annual Financial and Budget Report (CCFS-311)
- Attendance Reports

- Annual District Audit Report
- District Input (telephone, correspondence, site visit)
- Other Information, (i.e., debt reports, *Fiscal Data Abstract*, etc.)

(2) Financial assessment is based on a series of indicators and review criteria. The assessment is used to determine priority for follow-up by the Chancellor's Office.

(3) No single indicator or instrument is used to determine the financial condition of the district.

b. *District Follow-Up (Described in Section 5)*

(1) Validation of the Chancellor's Office assessment.

(2) Evaluation of the district's strategy to address the problem.

(3) Continued monitoring until the district's financial condition has improved.

4. Assessment of District's Financial Condition

Assessing the district's financial condition is a two-step process: (1) applying review criteria to the district's actual operation, and (2) determining the district's overall financial condition and priority for follow-up by the Chancellor's Office. These two steps are further detailed as follows:

a. *Application of Review Criteria*

The review criteria are divided into four categories.

(1) **General Fund balance** – Review of the current, historical, and projected fund balance in relation to General Fund expenditures. A notation is made if the district's actual General Fund balance is less than 5 percent of total expenditures and/or the district has experienced a decline in its General Fund balance from a previous period.

(2) **Spending pattern** – Review of the current, historical, and projected revenues and expenditures and their relationship. A notation is made if the district engages in deficit spending in the current and/or prior years.

(3) **Average daily attendance (ADA)** – Review of district ADA patterns in relation to statewide patterns and of their potential impact on revenues. A notation is made if ADA declines or grows significantly above fundable levels.

(4) **Other factors** – Review of all pertinent information that could bear upon the district's financial condition. A notation is made concerning any potential problem, including "going concern" audit citing, internal control audit citings, pending legal actions, and other fiscal or administrative problems.

b. *Determination of Financial Condition/Follow-Up*

Based on the review of financial information, with appropriate data verification, an overall assessment of the district's financial condition is made. The significance of each of the review findings must be determined on the basis of the extent of the problem and then considered in context with the district's total profile. Based on its overall assessment of financial condition, the Chancellor's Office determines the priority for follow-up. The following defines the follow-up priorities, with examples of conditions that could place districts in each priority category. Extenuating circumstances will be considered in determining a district's follow-up priority.

(1) **Priority One** – District with acute fiscal problems requiring corrective action in the current year to avoid the need for an emergency apportionment. Examples of conditions that promote assigning this priority to a district are: General Fund balance of less than 1 percent and deficit spending for the last two years; General Fund balance of less than 3 percent and an average 5 percent ADA decline for the last three years, etc.

(2) **Priority Two** – District with significant fiscal problems that require corrective action within 12 to 18 months to avoid the possibility of an emergency apportionment. Conditions such as a General Fund balance of less than 5 percent and pattern of significant deficit spending; General Fund balance of less than 5 percent and pattern of significant ADA decline; General Fund balance of less than 3 percent, etc. Evidence of these conditions would cause a district to be classified as a Priority Two.

(3) **Priority Three** – District with potential fiscal problems that should be addressed within 18 to 36 months to avoid becoming more serious. Indicators such as a General Fund balance of less than 5 percent, significant deficit spending, significant ADA decline, significant

internal control audit citings, etc., would result in a district being placed in this priority.

(4) **No Follow-Up** – District with no discernible fiscal problems.

A district determined to be Priority One for follow-up is considered by the Chancellor's Office to be "failing to meet these criteria," as specified in the *Education Code*, Section 84043. A Priority One designation has follow-up implications that are discussed in the following section.

5. District Follow-Up

Follow-up actions by the Chancellor's Office depend on the significance of the problem. Typically, districts given a "No Follow-Up" indicator would not be contacted unless there were a need to clarify information reported by the district. A district with a "Priority Three" indicator might be requested by telephone or letter to provide further information on the factor(s) in question. An occasional visit might be indicated. A district with a "Priority Two" indicator typically would be scheduled for a site visit.

For districts with "Priority Two" or "Priority Three" indicators, the Chancellor's Office contact primarily would be between the Fiscal Services Unit and the district's chief business officer (CBO). The follow-up action (which is preventative in nature) has several purposes:

a. *Validation of the Chancellor's Office assessment*

This action is taken to verify the nature and extent of the problem. The Chief Business Officer and/or other key staff are given an opportunity to explain or clarify the issue.

b. *Evaluation of the district's strategy to address the problem*

The district's strategy for improving its financial condition is evaluated relative to the specific factor(s) identified in the Chancellor's Office review.

c. *Continued monitoring until the district's financial condition is improved*

The district's financial information is re-reviewed on a quarterly basis to determine if progress is being made to improve its financial condition.

In determining a district's appropriateness for Priority One follow-up, peer CBO assessment will be sought. For districts with a "Priority One" indicator, the

follow-up action (which is corrective in nature) is specified in *Education Code* Section 84043, et seq. Basically, the district superintendent is notified in writing as to the specific problems relative to the criteria and required to respond within 15 days. If the response or proposed actions are inadequate, the Chancellor has the authority to direct the district to prepare and adopt a detailed plan. Further follow-up actions are specified in Sections 84044 and 84045 of the *Education Code*. To stabilize the financial condition of the district, the Chancellor may seek an emergency apportionment per *Education Code* Section 84046. The Chancellor may request assistance through the Consultation Process in evaluating the district's proposed actions or plan.

It is important to note that with appropriate justification, a district's follow-up priority may be lowered even though the facts that led to the determination have not changed. Districts will be given ample opportunity to justify their particular situation during the validation process.

6. Reporting

The Board of Governors will be notified of any district that, upon validation, requires Priority One follow-up and, therefore, may require an emergency apportionment.

5

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AUG 02 1991